

accepts the argument that CIS has been making that the poor have been getting better off ('even the poorest Australians have for the most part enjoyed a substantial improvement in real income over the last two decades', p.42). He accepts our criticism of the ABS income data (although he doesn't actually mention our work). He echoes our argument that, on a median-income-based measure, 'the percentage distribution of incomes after taxes and transfers (and after non-cash benefits) has not changed greatly', and that on an expenditure measure, 'inequality has remained stable' (p.43). He also accepts that the distribution of wealth has 'levelled off' as a result of compulsory superannuation (p.44). So what we have here is a book bemoaning growing inequality which actually recognises that income and wealth inequality has not been getting significantly worse. 'The increase in inequality', says Argy, 'has been relatively moderate'. Yet still he writes a book complaining that 'the old pillars of egalitarianism' are eroding (p.49). This truly is Hamlet without the Prince.

Despite the reception that it received from the pundits, it should be clear that this is not a particularly original, convincing or important book. It is a sad reflection on the intelligence of our media, and the critical acuity of our academics, that it should have received such uncritical adulation.

Oh, and by the way, Fred, congratulations on recognising that there are two of us named Peter Saunders who write in this field. But having gone to the trouble of distinguishing us in your bibliography, you might have checked who wrote what. *Reforming Australia's Welfare State* wasn't him—it was me.

Reviewed by Peter Saunders

Monetary Regimes and Inflation: History, Economic and Political Relationships

Peter Bernholz

Cheltenham, UK and Northampton, MA, USA, Edward Elgar, 2003, 210pp, £55.00, ISBN 1 84376 155 6

Many books and innumerable articles have been written on inflation. A new book on this important subject is justified only if it takes a fresh perspective and draws attention to aspects that have so far been neglected in the literature. On this score Peter Bernholz's book is certainly justified.

Based on a comparative analysis of moderate and high inflations from the 4th century onward, the book distils the general economic traits of inflation and tests their stability over centuries. It also examines the institutional backgrounds, in particular the political settings of inflations. From these empirical studies Bernholz deduces the economic measures necessary to end moderate and high inflations and explores the political conditions required to make such reforms practicable. Finally, the work compares and discusses all 29 episodes of hyperinflation from the French Revolution to the present—'hyperinflation' being defined as an inflation with a monthly rate of more than 50% at least in one month.

Bernholz begins by studying the relationship between long-term inflationary developments and various monetary regimes, like the gold or silver standards and the discretionary paper money standards of today (sometimes called the 'Finance-Minister Standard'), and dependent or independent central banks. (If governments intervene to suspend the convertibility guarantee, the currency becomes a genuine fiat currency, a currency of a type made possible only by the fiat power of the state. Today all major

currencies are fiat currencies, which have been created by the political will of legislators.) He demonstrates that because of the inflationary bias of political systems, the average rate of inflation has been lower the less the monetary regime has been influenced by politicians.

In the following chapters inflations under metallic monetary regimes and moderate paper money inflations are analysed. The two reasons for inflation under metallic monetary regimes are either an additional supply of the monetary metal or debasements of the currency by rulers in search of additional revenue. It is shown that the additional supply of gold or silver has only led to a very limited average inflation, for instance of about 2% in the 16th century, whereas higher inflation rates resulted from manipulations of metallic currencies by rulers, the worst example being the Roman inflation of the 4th century. It is not surprising to learn that the bad new money tended to drive out the good money with fixed exchange rates (Gresham's law), that rulers' attempts to fight the consequences of inflation which they had initiated by price and exchange controls not only did not have any lasting success, but also the consequences of such policies for the real economy usually proved disastrous.

Bernholz analyses the reasons for the introduction of stable currencies, something which in consideration of these political forces may be surprising. Apart from the return to 'normal' conditions after wars with a rather moderate inflation, Bernholz adduces the following reasons. First, if a country is small and (or) has important international commercial interests or if its capital markets enjoy a leading international position, it can be beneficial to the country or at least to influential parts of the population and thus of rulers to reintroduce or to maintain a stable currency. In the 13th century Florence and Venice

benefited from the introduction of the florin and ducat as stable currencies because of these reasons and since they also enjoyed the seigniorage, that is the fees from minting these internationally widely used coins.

Second, during a moderate inflation, politicians may benefit from trying to lower inflation, since this is popular with voters. As a consequence, however, the undervaluation typical for inflations is lowered and may even turn into an overvaluation. This, however, besides the cuts in expenditures and the increase of taxes felt by most, hits the export and

import-competing industries and their workers, who begin to turn against such a policy. Under these conditions the government may decide, supported by the respective interest groups, to fix the currency at a still undervalued gold parity or exchange rate with the support of those interest groups, who are afraid of a further revaluation because of disinflation. In this way, a mild inflation will go on until purchasing power parity is reached, but then stability of the currency is attained.

Even early paper money inflations led to faster price-level rises than those engineered by the debasement of metallic standards—examples studied range from Ming China in the 14th-15th centuries to Massachusetts, Sweden, the American War of Independence in the 18th century, and the American ‘Civil War’ (a not very civil War of Secession) in the 19th century. They were also characterised by flexible exchange rates showing the now

well-known pattern that purchasing power parities can diverge widely with undervaluations of the inflating currencies of up to 30%.

The next chapter turns to the qualitative characteristics of the 29 hyperinflations observed in history. It begins with the French hyperinflation. Its patterns can be observed again in all hyperinflations of the 20th century, which occurred after the general abolition of the gold standard during World War I and the Great Depression. Here Bernholz studies the role of budget deficits and the consequent decline of the real stock of money as well as currency

substitution—the substitution of the inflating money by more stable metallic or foreign paper money—and undervaluation.

The consequences of high inflations for the diverging development of different prices, for capital, and for economic activity and unemployment are scrutinised.

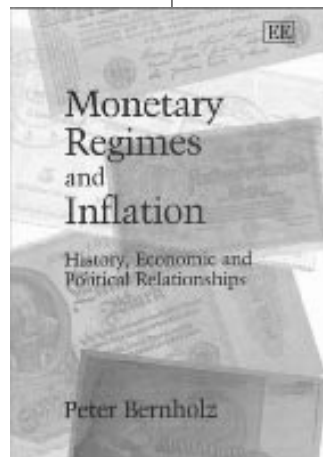
Finally, the political economy of high inflation and its social and political consequences are

analysed. It is shown that wages, especially higher and fixed wages, are usually lagging inflation, that relative prices are strongly distorted, that employment and economic activity suffer during hyperinflations and that capital markets that are not indexed shrink to near unimportance. No government has survived the advanced phases of hyperinflation, and the ruin of the middle classes has in several cases of high inflation encouraged the emergence of dictatorships or even totalitarian regimes.

In the following chapter, the threads of the foregoing analyses are collated to present a stylised pattern of a full inflationary cycle caused by budget deficits. In such cycles, new money is introduced besides the old to finance the deficit. In the course of further development, the good old money is first driven out by the bad new one at a fixed exchange rate (Gresham’s law). When the good old money has fully disappeared from circulation, the fixed exchange rate cannot be maintained in spite of all the fines and punishments introduced by the government in order to promote their preferred money. Inflation begins in earnest. It accelerates, currency substitution and undervaluation set in, and the good money substitutes for the bad inflationary one. Finally, the government has to stabilise its money by a currency reform—otherwise it would lose its monetary authority. If the reform does not succeed, the inflating money is finally driven out by the good one. The government has to legalise the latter to be able to maintain any tax revenue necessary for its very existence. Five historical examples for such a full historical cycle are presented.

Chapters seven and eight consider the political conditions, the economic measures and institutional reforms—that is, the currency reforms—for ending moderate and hyperinflations. A comparative study is made of many historical cases of ending moderate inflations, and of all currency reforms ending hyperinflations, by introducing more or less stable monetary regimes. When in the latter case a distinction is made between less and least successful currency reforms, we get an insight into the necessity of institutional reforms that restore the credibility of the currency by binding the hands of governments and politicians.

An appendix presenting the many sources used for the empirical data and additional literature for



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different historical cases is a valuable supplement to the book. There is also a subject index.

The book demonstrates that inflation is a man-made phenomenon and therefore can be undone by human action. Politicians and central bankers, who claim to be overwhelmed by some supernatural power and are helpless in the face of inflation, only reveal that they lack the will to create that most precious of social assets: sound money.

For the benefit of the general reader, formal models are kept to a minimum; they are, moreover, asterixed and can be skipped without losing the thread of the argument. To enliven reading, observations by men of letters are cited in boxes, from contemporary writers like Stefan Zweig and Ernest Hemingway to classics like Aristophanes. As these people are complete economic laymen, their evidence is sometimes more convincing than any econometric evidence.

Monetary Regimes and Inflation can be highly recommended to anybody interested in inflation and its manifold economic, social and political surroundings and consequences. This book by one of the world's leading scholars on monetary inflation and the institutional settings for money creation is a mine of information not only for students, but also for economists, historians, political scientists and sociologists; it is of relevance also for bankers, businessmen and politicians.

**Reviewed by
Gerard Radnitzky**

*The Fuss That Never Ended:
The Life and Work of Geoffrey
Blainey*

**Edited by Deborah
Gare, Geoffrey Bolton,
Stuart Macintyre and
Tom Stannage**

Melbourne University Press,
2003, 236 pp, \$39.95
ISBN 0522 85034 0

In 1994, a book of essays about one of Australia's two most famous and influential historians appeared. Edited by Carl Bridge, *Manning Clark: Essays On His Place in History* is an excellent collection of well-written and insightful perspectives on Clark.

Now, nine years later, a similar exercise has been undertaken for the other of our two highest profile historians, Geoffrey Blainey. Unfortunately the results are not as good.

The Fuss That Never Ended is an off-shoot of a symposium held in Melbourne in November 2000. The book's introduction neither explains why the book had such a long gestation period or, more importantly, why Blainey's own 'lengthy paper' from the symposium is not reproduced here.

Those who read Peter Ryan's acerbic *Weekend Australian* review would conclude that the whole purpose of this book was to tear down Blainey. Ryan overstates the case but, undoubtedly, the exercise does suffer from including far too many diatribes on topics which are the pre-occupations of the academic Left.

Six of the 14 essays are essentially ideological attacks on Blainey for his alleged failures on Aboriginal issues (Tim Rowse); the environment (Tom Griffiths); gender (Joanne Scott); British imperialism (Deborah Gare); labour history (Charlie Cox); and race (Andrew Markus).

Some of the criticism is tacitly acknowledged as philosophical difference. However, annoyingly, much of it becomes a critique of Blainey's value as a historian for the heinous crime of failing to appreciate the centrality of each writer's historical specialty to the telling of the Australian story. What seems to escape these historians is that, while the topics to which they have devoted such study may have merit, it is not compulsory that they be given a central place in everybody else's work.

The great irony is, of course, that Blainey's writings have covered a far broader canvas than the writers of these contributions put together.

Rowse provides an insight into why the collectivist historians do not like Blainey:

He (Blainey) prefers to people his histories with men and women of entrepreneurial vigour, whether they be humble 'cockies' or great men and women of business.

Most of us might think this was a good thing, but for Rowse this is a self-evident flaw.

The other eight essays are better balanced. The three senior historians Stuart McIntyre, Graeme Davison and Geoffrey Bolton contribute the first three essays and all appear to be trying hard to find nice things to say about someone they have known for a long time.

Davison, importantly, draws attention to how matters like technology and religion have been handled in Blainey's work and also pays tribute to the quality of Blainey's

